Government backs Enron to borrow costlier money

943. SHRI VIREN **J.** SHAH: WiH the Minister of FINANCE be pleased to state:

(a) whether Government's attention has been drawn to a report that appeared in the 'Indian Express'. Bombay dated September 2, 1994 captioned, "Government backs Enron to borrow costlier money", if so what are the facts in this regard:

(b) whether it is a fact that Indian financial institutions including HDFC, ICICI and IFCI have been discouraged from raising funds from abroad at less than seven per cent, if so, what are the reasons therefor;

(c) whether it is also a fact that Enron company which is to set up a power project in Maharashtra, has been permitted to raise from abroad funds at 12 per cent;

(d) if so, what are the reasons therefor;

(e) to what extent this incidence of interest on borrowings by Enron will be passed on to Government in view of the fact that 12 year bond carries the Indian Government's counter guarantee; and

(f) whether this will not have an adverse impact on the cost of power to be supplied to the consumers in Maharashtra by Enron and if so, what are the details in this regard?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M.V. CHANDRASHEKARA MURTHY): (a)and(b) Yes, Sir. The newspaper report states that Enron has been permitted to raise USD 650 million abroad at 12% p.a. while Indian financial institutions, including HDFC, ICICI and IFCI, have been prevented from raising funds at 7 % p.a. The factual basis of comparison made in the report is, however, incorrect. Government has ly approved external commercial borrowings for several financial institutions, including ICICI and IFCI. Comparisons of interes rates would also need to take account of loan Maturities and of different categorie-of financing, viz., project finance new companies in infrastructure devi. lopment as against commercial loan: to manufacturing or financial companies with strong trackrecords anc good balance sheets . For these rea^ sons, a comparison of interest rate; :;ione would not be indicative o whether one form of financing i necessarily more expensive, whei discounted for risks of the lending b; creditors.

(c)and(d) The Debhol Powe Company has been granted approvt to raise project lin ance of upto USI 350 million tn th; international cap: tal markets at a weighted average al in-foreign ncy spread over U Treasuries of 2.4% p.a. This is ne out of line with rates prevailin internationally for financing c infrastructure projects.

(e) The '" borrowings by tt Dabhol project by way of bond issi or other external borrowing do n carry a courier guarantiee by Gover tt of India. The counter guarant relates to the payment for power su piied to the Maharashtra State F>. tricity Board in the event of non pa ment by Maharashtra State Electric Board and i so by the St:.te Gover ment.

(f) In v.ew of the fixed tariff! each calender year, inci , COL ts on foreign loans M not be passed ori through the tariff ultimate consume s of eiecuici further, the power supplied by D« hoi Power Company to Maharash! State Electricity Board wiH be poo into its grid and will be distributed the consumers as per the prevail tariff schedule of Maharashtra St Electricity Board.